

UPPER ADAMS SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*; issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

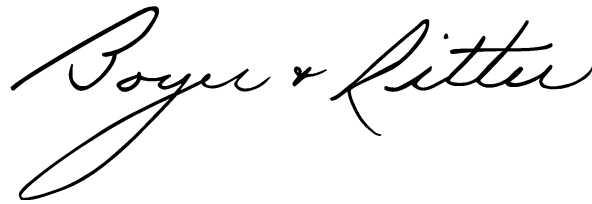
Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis on pages 4 through 13 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Adams School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018, on our consideration of Upper Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper Adams School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
January 10, 2018

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2017**

The management discussion and analysis of the Upper Adams School District provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of the discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes in conjunction with the discussion and analysis to enhance their understanding of the School District's financial performance.

Overview of the Financial Statements

The Annual Financial Report consists of various financial statements and the notes to those statements. The financial reports consist of District-wide and individual fund statements. The district-wide statements present an aggregate long-term view of the School District's finances. The fund financial statements focus on the short-term financing of the School District's services and what remains for future spending.

District-wide Statements

Statement of Net Position and Statement of Activities

The Statement of Net Position and Statement of Activities reflect all assets and liabilities using the accrual basis of accounting similar to the systems used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid. These statements report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished.

In the Statement of Net Position and Statement of Activities, the School District is divided into two categories:

Governmental Activities - Most of the School District's programs are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Business-Type Activities - This service is provided on a charge for goods and services basis to recover the expenses of the goods or services provided. The Food Service program is reported as a business activity.

Fund Financial Statements

Fund financial reports provide detailed information about the School District's funds. Funds are used to separate financial transactions to better monitor specific activities.

Funds at Upper Adams School District include:

- Major Governmental Funds
 - General Fund
 - Capital Projects Fund
- Proprietary Funds
 - Enterprise Fund - Food Services
- Agency Funds
 - Student Activity Funds

Financial Highlights

- Total governmental activities net position increased by \$2,069,345 for a net in governmental funds of negative \$27,019,853 whereas the year prior net position was negative \$29,089,198. Governmental activity net change is largely due to the third year of UA's pension liability as an asset and liability. The business type activities increased by \$36,180. Moreover, the current year decrease in Food Service operations represents a gain in net position for a net position at June 30, 2017 of \$ 112,800.00.
- General Fund combined fund balance at June 30, 2017, was \$3,622,940 which represents an assigned fund balance of \$1,481,314; an unassigned fund balance of \$1,153,552; and a restricted non-spendable fund balance of \$988,074. Moreover, the unassigned fund balance represents 4.42% of the 2016-2017 General Fund Final Expenditures.
- The total assigned fund balance is 5.67% of the General Fund Final Expenditures. The assigned fund balance are amounts designed for a specific purpose, in accordance with policy# 623. The assigned fund balance breakdown is as follows:

○ Debt	\$ 672,695
○ PSERS(Retirement)	\$ 246,000
○ Capital Reserve	\$ 562,619
- The restricted non-spendable fund balance of \$988,074 is a result of joining Lincoln Benefit Trust effective July 1, 2016. The amount represents funds held in trust for the purpose of health benefits ended June 30, 2017.
- Total governmental fund balances equaled \$4,596,593 The following shows the breakdown by fund:
 - General Fund Balance of \$3,622,940 (unassigned, unrestricted, committed, and non-spendable)
 - Capital Projects Fund Balance of \$973,653.

Reporting the School District as a Whole

The perspective of the Statement of Net Position is of the School District as a whole. Table 1 provides a summary of net position for 2017, 2016 and 2015, respectively.

Table 1
Net Position

	Governmental Activities			Business-Type Activities			Totals		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Total Assets	\$ 28,321,845	\$ 25,717,442	\$ 27,837,029	\$ 214,817	\$ 249,340	\$ 79,295	\$ 28,536,662	\$ 25,966,782	\$ 27,916,324
Deferred Outflows of Resources	\$ 7,178,635	\$ 3,296,341	\$ 3,040,328	\$ -	\$ -	\$ 74,391	\$ 7,178,635	\$ 3,296,341	\$ 3,114,719
Total Liabilities	\$ 59,675,333	\$ 57,166,981	\$ 55,466,209	\$ 102,017	\$ 172,720	\$ 866,482	\$ 59,777,350	\$ 57,339,701	\$ 56,332,691
Deferred Inflows of Resources	\$ 2,845,000	\$ 936,000	\$ 2,375,594	\$ -	\$ -	\$ 60,406	\$ 2,845,000	\$ 936,000	\$ 2,436,000
Net Investment in capital assets	\$ 3,453,192	\$ 2,290,758	\$ 2,147,106	\$ 133,109	\$ 58,857	\$ 64,703	\$ 3,586,301	\$ 2,349,615	\$ 2,211,809
Restricted	973,653	1,097,312	1,901,030	-	-	-	973,653	1,097,312	1,901,030
Unrestricted	(31,446,698)	(32,477,268)	(31,012,582)	(20,309)	17,763	(837,905)	(31,467,007)	(32,459,505)	(31,850,487)
Total Net Position	\$ (27,019,853)	\$ (29,089,198)	\$ (26,964,446)	\$ 112,800	\$ 76,620	\$ (773,202)	\$ (26,907,053)	\$ (29,012,578)	\$ (27,737,648)

Governmental Activities

On June 30, 2017, the School District had total net position from governmental activities of negative \$27,019,853; which was an increase of \$2,069,345 or 7.11% during the fiscal year. Total governmental deferred outflows increased by \$3,882,294, and the governmental liabilities increased by \$2,508,352. Factors that significantly affected net position in the 2016-2017 fiscal year were:

- Third year implementation of Pension, PSERS, assets. The liability is now required to be recorded in our statement of net position.
- General fund cash and investments increased by \$928,996 from the prior year, while capital project cash (capital project and capital reserve) decreased by \$217,248. General Fund cash increased minimally compared to the budget. Capital project cash and investments decreased due to the partial completion of projects that were slated in the refinancing GOB (General Obligation Bonds) 2015.
- Outstanding debt decreased by net of \$1,423,523 as general obligation bonds were repaid in principal and interest.

Table 2 reflects the change in net position for fiscal year 2017, 2016, and 2015. The comparison is based on 2016 (prior year) to 2017 (current year). This table takes the information from the Statement of Activities and rearranges it so that readers can see the total revenues for the year.

Table 2
Fiscal Year Ended June 30, 2017
Changes in Net Position

	Governmental Activities			Business-Type Activities			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Revenues									
Program Revenues									
Charges for Services	\$ 570,954	\$ 398,142	\$ 393,087	\$ 353,394	\$ 327,187	\$ 375,159	\$ 924,348	\$ 725,329	\$ 768,246
Operating Grants & Contributions	6,229,168	5,835,659	5,463,858	605,068	592,014	568,638	6,834,236	6,427,673	6,032,496
Capital Grants & Contributions	-	-	-	-	-	-	-	-	-
General Revenues									
Property Taxes	11,061,891	10,670,629	10,145,235	-	-	-	11,061,891	10,670,629	10,145,235
Other Taxes	2,937,664	2,786,698	2,740,606	-	-	-	2,937,664	2,786,698	2,740,606
Grants, Subsidies & Contributions (Unrestricted)	6,445,474	6,251,020	6,141,058	-	-	-	6,445,474	6,251,020	6,141,058
Transfers	-	(828,402)	(345,894)	-	828,402	345,894	-	-	-
Other	(881,957)	53,485	24,251	-	-	-	(881,957)	53,485	24,251
Total Revenues	\$26,363,194	\$25,167,231	\$24,562,201	\$ 958,462	\$1,747,603	\$ 1,289,691	\$ 27,321,656	\$ 26,914,834	\$ 25,851,892
Expenses									
Instruction	\$15,220,662	\$16,915,864	\$15,760,774	\$ -	\$ -	\$ -	\$15,220,662	\$16,915,864	\$15,760,774
Instructional Student Support	2,088,675	3,186,585	2,205,502	-	-	-	2,088,675	3,186,585	2,205,502
Administrative and Financial Support	2,768,012	2,740,629	2,738,304	-	-	-	2,768,012	2,740,629	2,738,304
Operation and Plant Maintenance	1,622,165	1,935,250	2,008,319	-	-	-	1,622,165	1,935,250	2,008,319
Pupil Transportation	1,400,643	1,373,239	1,345,634	-	-	-	1,400,643	1,373,239	1,345,634
Student Activities	766,359	676,505	693,258	-	-	-	766,359	676,505	693,258
Community Services	-	5,686	19,208	-	-	-	-	5,686	19,208
Interest On Long-Term Debt	427,333	458,225	489,135	-	-	-	427,333	458,225	489,135
Unallocated Depreciation Expense	-	-	-	-	-	-	-	-	-
Food Services	-	-	-	922,282	897,781	1,001,952	922,282	897,781	1,001,952
Total Expenses	\$24,293,849	\$27,291,983	\$25,260,134	\$ 922,282	\$ 897,781	\$ 1,001,952	\$ 25,216,131	\$ 28,189,764	\$ 26,262,086
Increase/(Decrease) in Net Position	\$ 2,069,345	\$ (2,124,752)	\$ (697,933)	\$ 36,180	\$ 849,822	\$ 287,739	\$ 2,105,525	\$ (1,274,930)	\$ (410,194)

Governmental revenues, excluding business-type activity transfers, increased by 4.42% for 2017, 4.37% for 2016, and 3.41% for 2015. In terms of dollars, this increase is \$1,130,191 for 2017, \$1,087,538 for 2016, and \$820,706 for 2015 for a total of \$27.3 million in 2017, \$25.9 million in 2016, and \$24.9 million in 2015, respectively. Reasons for the increase are primarily attributed to the following changes:

- Current year real estate taxes collected increased by 3.67% or \$391,262 as a result of a 3.3% increase in the millage rate.
- Other tax levied revenues increased overall by 5.42% or \$150,966. This category includes earned income, real estate transfer taxes, public utility, and delinquent earned income taxes. The net increase of 5.42% is a result of the following changes occurring: an increase in earned income taxes received, an increase in real estate transfer taxes, a decrease in the local service tax, and a decrease in delinquent taxes collected.

- Grants and subsidies not restricted overall increased by 3.11% otherwise \$194,454 as a result from retirement and social security subsidies. Additionally, the District records the property tax relief payment from the State in this category, which was a slight increase of \$6,109 and reflected as the Homestead/Farmstead Exclusion on the taxpayer's real estate tax bill.
- Charges for services increased by 43.40% or \$172,812. These services include revenue received from other school districts for consortium services, mainstreaming children placed in private homes, rental of school facilities, and admission revenues. The number of students identified and being serviced has grown.

Property taxes contributed to 42.01% for 2016-2017, 42.4% for 2015-2016, and 41.30% for 2014-2015, respectively, for total revenues for governmental activities at Upper Adams School District. Property tax as a percentage of total revenues remains consistent.

Governmental program expenditures decreased by 10.99% for 2016-2017 from \$27.2 million to approximately \$24.3 million. The major changes in expenditures can be primarily attributed to the following:

- Total annual wages for 2016-2017 increased overall by .85% or \$89,792.80. This is the net change from annual contract increases, new hires and retirements.
- The PSERS employer contribution rate for employee retirement continually increases, changing from 16.93% in 2013-2014 to 21.40% in 2014-2015 to 25.84% in 2015-2016 and to 30.03% in 2016-2017. Over the last three years: 2016-2017 increased by 17.84%, or \$475,672, for 2015-2016 increased by 18.08% or \$408,285 compared to 2014-2015 of 22.72% or 418,014. The perpetual increase, over the three-year period, is 58.63% or \$1,301,970. While salaries remain a factor of the PSERS expense, PSERS percentage increases far surpasses any other increase in operations.
- Total group insurance expenses decreased by 46% or \$1,101,149 for both covered bargaining unit and non-covered collective units; which is comprised of medical, dental, and vision insurance. The benefit insurance decrease is the first full-year result of changing from enrollment in a fully insured medical market to a self-insured market even with minimal premium increases, enrollment changes, and retirements. Additionally, as stated, the District's reserve non-spendable fund balance of \$988,074 is funding payments exceeding actual medical expenses ended June 30, 2017.
- Purchase of professional and technical services increased 7.81% or \$210,872 over prior year due to increases in professional support services, outsourced contractual services for facilities and the utilization of a provider for substitute teachers.
- Student tuition costs overall increased to other local educational agencies or charter schools by \$144,435 or 10.18%.

Instructional costs contributed to 71.25%, 73.66%, and 71.13%, of total program expenses for governmental activities for Upper Adams School District in fiscal years ended 2017, 2016, and 2015 respectively.

The Statement of Activities reflects the cost of program services and the charges for services, sales, grants, and contributions offsetting those services.

Table 3, for governmental activities, indicates the total cost of services and net cost of services. The table shows the net cost offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table 3
Fiscal Year Ended June 30, 2017
Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2017	2016	2015	2017	2016	2015
Functions/Programs						
Instruction	\$ 15,220,662	\$ 16,915,864	\$ 15,760,774	\$ 11,000,761	\$ 13,200,311	\$ 12,423,579
Instructional Student Support	2,088,675	3,186,585	2,205,502	941,938	2,063,707	1,126,237
Administrative	2,768,012	2,740,629	2,738,304	2,412,860	2,451,482	2,475,918
Operation and Maintenance	1,622,165	1,935,250	2,008,319	1,619,516	1,876,736	1,870,915
Pupil Transportation	1,400,643	1,373,239	1,345,634	469,786	432,667	396,567
Student Activities	766,359	676,505	693,258	656,909	569,368	601,630
Community Services	-	5,686	19,208	-	5,686	19,208
Interest on Long-Term Debt	427,333	458,225	489,135	391,957	458,225	489,135
Unallocated Depreciation Expense	-	-	-	-	-	-
Total Governmental Activities	<u>\$ 24,293,849</u>	<u>\$ 27,291,983</u>	<u>\$ 25,260,134</u>	<u>\$ 17,493,727</u>	<u>\$ 21,058,182</u>	<u>\$ 19,403,189</u>
Less:						
Unrestricted Grants and Subsidies				6,445,474	6,251,020	6,141,058
Total Needs from Local Taxes and Other Revenues				<u>\$ 11,048,253</u>	<u>\$ 14,807,162</u>	<u>\$ 13,262,131</u>

Nearly 36.84% of the 2016-2017 total cost of services for the governmental activities was funded by charges for services, grants, and contributions. The remaining costs were funded by tax revenues and the basic instructional subsidy.

Business-Type Activities

The only business-type activity at Upper Adams School District is the food service operation. The School District provides both breakfast and lunch programs for grades K through 12. This program had operating revenues of \$353,394 and non-operating revenue of \$605,068. The expenses totaled \$922,282 for the 2016-2017 fiscal year. School meal prices for lunch and breakfast were at a .10 increase over prior year. The School District received 63.1% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by \$13,054 due to increase in federal, state, and governmental food commodities received. Total operating revenues increased by \$26,267 and expenditures increased by \$24,501. Total net position incurred and rose by \$36,180 leaving the Food Service ending net position of \$112,800 on June 30, 2017.

General Fund Budgeting Highlights

General fund highlights for the 2016-2017 fiscal year, total general fund revenue local sources exceeded budget by 3.12% or \$457,128. State funded revenue did exceed the budget by 2.28% or \$267,436 and a minimal increase in federal revenue consisted of 7.59% or \$21,258.

Total general fund expenditures were overall under budget by 4.07% or \$1,106,622 and the budgetary reserve of \$266,500 was transferred during the year and appropriated at year-end. Moreover, the approved budget planned on using \$834,143 of fund balance when in fact the result was more favorable with the fund balance increasing by \$1,527,742. Other significant expenditure budget variances are discussed below:

- Regular program expenditures were less than the original budget by 5.03% or \$538,364. Most of this variance is a result of health benefit reclassifying as prepaid expenses.
- Special Education program expenditures were less than original budget by 4.12% or \$150,745, mostly due to health benefit reclassifying as prepaid expense and conservative estimates in Schedule A expenditures when budgeting the Lincoln Intermediate Services.
- Vocational Education program expenditures exceeded the original budget by 5.05% or \$37,416 due to an increase and change in benefits.
- Other Instructional program expenditures were less than original budget by 8.39% or \$17,782 due to change in benefits.
- Total Support services were overall less than original budget by 2.99% or \$275,601 with pupil personnel services, instructional support services, administration, operation of maintenance and plant services, business, transportation and other support services. The majority is directly related to the change in staff and transportation services. In fact, student transportation services alone happened to be less than the original budget by 3.28% or \$47,251.
- Debt Service including principal and interest was right on target with the budget planning.
- Athletic program costs were reflected in Student Activities as required by GASB No. 54. Student Activities were under original budget by 9.93% or \$75,476.

Capital Assets and Debt Administration

At June 30, 2017, the District had \$19,660,368 that represents invested capital assets including land, building, and equipment.

Table 4 indicated the breakdown of capital assets net of depreciation for 2017, 2016, and 2015 respectively.

Table 4
Capital Assets - Net of Depreciation

	Governmental Activities			Business Type Activities			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Land and land improvements	\$ 370,297	\$ 370,297	\$ 370,297	\$ -	\$ -	\$ -	\$ 370,297	\$ 370,297	\$ 370,297
Site Improvements	579,551	625,703	708,221	-	-	-	579,551	625,703	708,221
Buildings	16,811,351	16,944,013	17,880,278	-	-	-	16,811,351	16,944,013	17,880,278
Equipment	1,766,060	1,301,250	1,844,215	133,109	58,857	64,703	1,899,169	1,360,107	1,908,918
Total Capital Assets	\$ 19,527,259	\$ 19,241,263	\$ 20,803,011	\$ 133,109	\$ 58,857	\$ 64,703	\$ 19,660,368	\$ 19,300,120	\$ 20,867,714

Total Governmental Capital Assets increased by 1.5% or \$285,996 as this represents a net increase (including additions, deletions, and depreciation) from prior year.

Debt Administration

At June 30, 2017, the Upper Adams School District had \$16,039,708 in bonds and capital lease obligations outstanding.

In 2015, the District refinanced Bond Series 2010 to Bond Series 2015 to gain capital to address structural improvements for building and site improvements.

Table 5 summarizes and compares outstanding debt for the 2017, 2016, 2015 and 2014 fiscal years respectively.

Table 5
Outstanding Debt

	2017	2016	2015	2014
General Obligation Bonds				
Bond Series of 2010	\$ -	\$ -	\$ -	\$ 4,840,000
Bond Series of 2010- A	1,989,204	1,997,727	2,008,500	2,013,500
Bond Series 2011	1,710,000	1,885,000	2,060,000	2,230,000
Bond Series 2012	5,145,000	6,380,000	7,565,000	7,570,000
Bond Series 2015	5,560,000	5,565,000	5,570,000	-
Capital Lease Obligations	1,635,504	1,080,373	1,402,514	1,484,109
Total Outstanding Debt and Capital lease obligations	\$ 16,039,708	\$ 16,908,100	\$ 18,606,014	\$ 18,137,609

Economic Impact and Budget Rate Forecast

The Upper Adams School District has investments at PNC Bank, Adams County National Bank, M&T Bank, and the Pennsylvania School District Liquid Asset Fund. The Federal Deposit Insurance Corporation (FDIC) insures the bank account balances and additional protection of investments is guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily.

The Public School Employees' Retirement System certified rates of 8.65% for 2011-2012; 12.36% for 2012-2013; 16.93% for 2013-2014, 21.40% for 2014-2015, 25.84% for 2015-2016, 30.03% for 2016-2017, and 32.57% for 2017-2018. Future projections are inclined to stay in the range of 32%-38% over the next five years. To begin to prepare for future rate increases, the District committed an assigned fund balance for fiscal year ended 2017 of \$ 246,000 and will continue to set aside as needed within the budget process and by the close of each fiscal year.

The Commonwealth of Pennsylvania provided an increase in the annual special education subsidy, and basically a shortfall from the Governor budget in basic educational subsidy. Moreover, with continued reductions and the possibility of not having a state approved budget or state fluctuations in state subsidies, PSERS increases, pension liabilities and the possibility of new unfunded mandates are matters of concern for the district.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds - Fund Balance

The focus of the District's governmental funds is to provide information on relatively short-term cash flow and future basic services. Such information is useful in assessing the Upper Adams School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

At year-end, June 30, 2017, the Upper Adams School District's governmental funds reported total ending fund balances of \$3,622,940 and \$973,653 restricted for capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Upper Adams School District original budget anticipated revenues at \$26,654,433 and expenditures of \$27,488,576. The actual results for the year were revenues in excess by \$745,822 and that expenses were under expended by \$1,106,622. The overall change in position increased fund balance by \$1,527,742. Refer to fund balance appropriations as listed in Financial Highlights.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, investors and creditors, with a general overview of the District's finances and to demonstrate the district's accountability. If you have any questions about this report or need additional information, please contact Belinda M. Wallen, Business Administrator/Board Secretary, at (717) 677-7191 Ext 2704, email b.wallen@upperadams.org or by mail at the Upper Adams School District, 161 North Main Street Biglerville, PA 17307.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 2,329,519	\$ 83,097	\$ 2,412,616
Investments	2,800,000	-	2,800,000
Receivables			
Taxes - net of allowance for uncollectibles	1,086,979	-	1,086,979
Federal subsidies	27,922	-	27,922
State subsidies	1,043,118	-	1,043,118
Other	50,589	150	50,739
Internal balances	19,024	(19,024)	-
Due from other governments	426,245	-	426,245
Prepaid expenses	988,074	-	988,074
Inventories	-	17,485	17,485
Prepaid bond insurance - net	23,116	-	23,116
Capital Assets			
Land and construction-in-progress	370,297	-	370,297
Other capital assets - net of depreciation	19,156,962	133,109	19,290,071
Total capital assets	19,527,259	133,109	19,660,368
Total assets	28,321,845	214,817	28,536,662
 Deferred Outflows of Resources			
Deferred amounts on pension liability	7,106,160	-	7,106,160
Deferred amounts on refunding debts	72,475	-	72,475
Total deferred outflows of resources	7,178,635	-	7,178,635
 Total assets and deferred outflows of resources	\$ 35,500,480	\$ 214,817	\$ 35,715,297

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
Liabilities			
Accounts payable	\$ 228,300	\$ 25,536	\$ 253,836
Accrued salaries and benefits	3,194,625	-	3,194,625
Payroll deductions and withholdings	173,197	-	173,197
Accrued interest	116,477	-	116,477
Unearned revenue	52,094	40,481	92,575
Long-term liabilities			
Due within one year	2,730,233	12,000	2,742,233
Due in more than one year	53,180,407	24,000	53,204,407
Total long-term liabilities	55,910,640	36,000	55,946,640
Total liabilities	59,675,333	102,017	59,777,350
Deferred Inflows of Resources			
Deferred amounts on pension liability	2,845,000	-	2,845,000
Net Position			
Net investment in capital assets	3,453,192	133,109	3,586,301
Restricted for capital projects	973,653	-	973,653
Unrestricted	(31,446,698)	(20,309)	(31,467,007)
Total net position	(27,019,853)	112,800	(26,907,053)
Total liabilities, deferred inflows of resources, and net position	\$ 35,500,480	\$ 214,817	\$ 35,715,297

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities:						
Instructional	\$ 15,220,662	\$ 510,634	\$ 3,709,267	\$ (11,000,761)	\$ -	\$ (11,000,761)
Instructional student support	2,088,675	-	1,146,737	(941,938)	-	(941,938)
Administration and financial support	2,768,012	-	355,152	(2,412,860)	-	(2,412,860)
Operation and maintenance of plant services	1,622,165	2,000	649	(1,619,516)	-	(1,619,516)
Pupil transportation	1,400,643	-	930,857	(469,786)	-	(469,786)
Student activities	766,359	58,320	51,130	(656,909)	-	(656,909)
Interest on long-term debt	427,333	-	35,376	(391,957)	-	(391,957)
Total governmental activities	24,293,849	570,954	6,229,168	(17,493,727)	-	(17,493,727)
Business-Type Activity:						
Food service	922,282	353,394	605,068	-	36,180	36,180
Total District	\$ 25,216,131	\$ 924,348	\$ 6,834,236	(17,493,727)	36,180	(17,457,547)
General Revenues:						
Property taxes, levied for general purposes, net				11,061,891	-	11,061,891
Public utility, realty transfer, earned income, and per capita taxes levied for general purposes, net				2,937,664	-	2,937,664
Grants, subsidies, and contributions, not restricted				6,445,474	-	6,445,474
Investment earnings				21,718	-	21,718
Miscellaneous income				362,076	-	362,076
Loss on disposal of capital assets				(161,154)	-	(161,154)
Capital lease				(1,104,597)	-	(1,104,597)
Total general revenues				19,563,072	-	19,563,072
Changes in net position				2,069,345	36,180	2,105,525
Net Position - July 1, 2016				(29,089,198)	76,620	(29,012,578)
Net Position - June 30, 2017				\$ (27,019,853)	\$ 112,800	\$ (26,907,053)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,155,795	\$ 173,724	\$ 2,329,519
Investments	2,000,000	800,000	2,800,000
Receivables			
Taxes - net of allowance for uncollectibles	1,086,979	-	1,086,979
Federal subsidies	27,922	-	27,922
State subsidies	1,043,118	-	1,043,118
Intergovernmental	426,245	-	426,245
Other	50,589	-	50,589
Due from other funds	19,024	-	19,024
Prepaid expenses	988,074	-	988,074
Total assets	\$ 7,797,746	\$ 973,724	\$ 8,771,470
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 228,229	\$ 71	\$ 228,300
Accrued salaries and benefits	3,194,625	-	3,194,625
Payroll deductions and withholdings	173,197	-	173,197
Unearned revenue	52,094	-	52,094
Total liabilities	3,648,145	71	3,648,216
Deferred Inflows of Resources			
Delinquent property taxes	526,661	-	526,661
Fund Balances			
Nonspendable	988,074	-	988,074
Restricted for capital projects	-	973,653	973,653
Assigned	1,481,314	-	1,481,314
Unassigned	1,153,552	-	1,153,552
Total fund balances	3,622,940	973,653	4,596,593
Total liabilities, deferred inflows of resources and fund balances	\$ 7,797,746	\$ 973,724	\$ 8,771,470

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017**

Total fund balances - governmental funds	\$	4,596,593
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$47,446,482, and the accumulated depreciation is \$27,919,223.		19,527,259
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflows of resources in the funds.		526,661
The difference between the re-acquisition price and the net carrying amount of the old debt is a deferred outflow of resources, which is not reported in the governmental funds.		72,475
Bond-insurance premiums that are paid at bond settlement are expensed in the governmental funds. The amounts attributable to future periods are reflected as prepaid bond insurance.		23,116
Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, they are not reported within the funds. Deferred inflows and outflows related to pensions are as follows:		
Deferred inflows		(2,845,000)
Deferred outflows		7,106,160
Long-term liabilities, including bonds payable, compensated absences, net pension liabilities, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	(14,404,204)	
Bond issuance (premium) discount - net	(34,359)	
Accrued interest	(116,477)	
Capital-lease obligations	(1,635,504)	
Compensated absences	(423,015)	
Net pension liability	(38,803,160)	
Other post-employment benefits obligation	(610,398)	(56,027,117)
Total net position - governmental activities	\$	(27,019,853)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	General	Capital Projects	Total Governmental Funds
Revenues			
Local sources	\$ 15,085,260	\$ 4,480	\$ 15,089,740
State sources	12,013,505	-	12,013,505
Federal sources	301,490	-	301,490
Total revenues	27,400,255	4,480	27,404,735
Expenditures			
Instruction	14,562,049	-	14,562,049
Support services	8,930,184	-	8,930,184
Non-instructional services	684,482	-	684,482
Facilities acquisition and construction	-	128,139	128,139
Debt service	1,938,739	-	1,938,739
Total expenditures	26,115,454	128,139	26,243,593
Excess (deficiency) of revenues over expenditures	1,284,801	(123,659)	1,161,142
Other Financing Sources			
Sale of capital assets	242,931	-	242,931
Refunds of prior years' receipts	10	-	10
Total other financing sources	242,941	-	242,941
Net changes in fund balances	1,527,742	(123,659)	1,404,083
Fund Balances - July 1, 2016	2,095,198	1,097,312	3,192,510
Fund Balances - June 30, 2017	<u>\$ 3,622,940</u>	<u>\$ 973,653</u>	<u>\$ 4,596,593</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Net change in fund balances - governmental funds		\$ 1,404,083
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays of \$1,995,914 exceeded depreciation expense of \$1,548,764 in the period.		447,150
The net effect of various miscellaneous transactions involving capital assets (ie. sales, trade-ins, and donations) is to decrease net assets.		(161,154)
Because some property taxes will not be collected for several months after the District's fiscal year-ends, they are not considered as "available" revenues in the governmental funds. Delinquent property taxes decreased by this amount this year.		(18,723)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest accrued reflected in the Statement of Activities is shown here.		3,984
Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
District pension contributions		3,048,000
Cost of benefits earned - net of employee contributions (pension expense)		(3,472,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in governmental funds.		
Change in prepaid bond insurance	(7,455)	
Change in compensated absences	31,879	
Change in other post-employment benefits	(61,991)	(37,567)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in treatment of long-term debt and related items.		
Issuance of capital lease obligations	(1,104,597)	
Repayment of long-term debt	1,423,523	
Repayment of capital lease obligations	549,466	
Amortization of refunding loss	(20,866)	
Amortization of bond issuance (premiums) discounts - net	8,046	855,572
Change in net position - governmental activities		\$ 2,069,345

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Real estate taxes	\$ 10,627,735	\$ 10,627,735	\$ 10,684,655	\$ 56,920
Public utility realty tax	15,500	15,500	14,580	(920)
Payments in lieu of taxes	8,100	8,100	8,062	(38)
Per capita taxes	66,850	66,850	67,424	574
Earned income taxes	2,502,901	2,502,901	2,633,038	130,137
Occupation privilege tax	52,000	52,000	42,894	(9,106)
Real estate transfer taxes	150,000	150,000	169,975	19,975
Delinquent real estate taxes	542,979	542,979	387,896	(155,083)
Delinquent per capita taxes	-	-	9,754	9,754
Earnings on investments	3,000	3,000	17,238	14,238
Student activities	-	-	58,320	58,320
Intermediary sources	250,153	250,153	283,550	33,397
Rentals	2,000	2,000	2,000	-
Donations	50,000	50,000	76,095	26,095
Tuition	335,655	335,655	510,634	174,979
Refunds and other miscellaneous revenue	21,259	21,259	119,145	97,886
Total local sources revenue	14,628,132	14,628,132	15,085,260	457,128
State sources				
Basic education	6,365,384	6,365,384	6,369,378	3,994
Tuition for orphans and children placed in private homes	10,000	10,000	-	(10,000)
Vocational education	43,165	43,165	69,029	25,864
Migratory children	1,275	1,275	995	(280)
Special education	1,010,480	1,010,480	992,797	(17,683)
Transportation	941,677	941,677	922,162	(19,515)
Building reimbursement subsidy	165,387	165,387	210,799	45,412
Health services	33,000	33,000	32,589	(411)
Property tax relief subsidy	816,721	816,721	799,878	(16,843)
Ready to learn block grant	246,842	246,842	290,571	43,729

(Continued)

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues (Continued)				
State sources (continued)				
Social security reimbursement	446,335	446,335	465,084	18,749
Retirement reimbursement	1,665,803	1,665,803	1,860,223	194,420
Total state sources revenue	11,746,069	11,746,069	12,013,505	267,436
Federal sources				
Title I - Improving the Academic Achievement of the Disadvantaged	190,520	190,520	199,508	8,988
Title II - Preparing, Training & Recruiting High Quality Teachers & Principals	58,135	58,135	58,050	(85)
Title III - Language Instruction for LEP	31,577	31,577	43,932	12,355
Total federal sources revenue	280,232	280,232	301,490	21,258
Total revenues	26,654,433	26,654,433	27,400,255	745,822
Expenditures				
Instruction				
Regular programs	10,919,080	10,699,080	10,160,716	538,364
Special programs	3,654,764	3,654,764	3,504,019	150,745
Vocational education programs	680,568	740,568	703,152	37,416
Other instructional programs	211,944	211,944	194,162	17,782
Total instruction	15,466,356	15,306,356	14,562,049	744,307
Support Services				
Pupil personnel	552,909	552,909	521,582	31,327
Instructional staff	2,527,238	2,723,738	2,641,913	81,825
Administration	2,272,638	2,236,138	2,090,319	145,819
Pupil health	245,998	245,998	238,380	7,618
Business	362,292	362,292	329,579	32,713
Operation and maintenance of plant services	1,631,200	1,631,200	1,621,758	9,442
Student transportation services	1,440,994	1,440,994	1,393,743	47,251
Other support services	12,516	12,516	92,910	(80,394)
Total support services	9,045,785	9,205,785	8,930,184	275,601

(Continued)

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures (Continued)				
Non-instructional Services				
Student activities	759,958	759,958	684,482	75,476
Community services	15,000	15,000	-	15,000
Total non-instructional services	774,958	774,958	684,482	90,476
Debt Service				
Principal	1,524,765	1,524,765	1,528,956	(4,191)
Interest	410,212	410,212	409,783	429
Total debt service	1,934,977	1,934,977	1,938,739	(3,762)
Total expenditures	27,222,076	27,222,076	26,115,454	1,106,622
Excess (deficiency) of revenues over expenditures	(567,643)	(567,643)	1,284,801	1,852,444
Other Financing Sources (Uses)				
Sale of fixed assets	-	-	242,931	242,931
Refunds of prior years' receipts	-	-	10	10
Budgetary reserve	(266,500)	(266,500)	-	266,500
Total other financing sources (uses)	(266,500)	(266,500)	242,941	509,441
Net change in fund balance	\$ (834,143)	\$ (834,143)	1,527,742	\$ 2,361,885
Fund Balance - July 1, 2016			2,095,198	
Fund Balance - June 30, 2017			<u>\$ 3,622,940</u>	

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
June 30, 2017**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 83,097
Receivables	
Other	150
Inventories	17,485
Total current assets	<u>100,732</u>
Noncurrent Assets	
Furniture and equipment - net	<u>133,109</u>
Total assets	<u><u>\$ 233,841</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 25,536
Contract payable - current portion	12,000
Due to other funds	19,024
Unearned revenue	40,481
Total current liabilities	<u>97,041</u>
Noncurrent Liabilities	
Contract payable - net of current portion	<u>24,000</u>
Total liabilities	<u>121,041</u>
NET POSITION	
Investment in capital assets	133,109
Unrestricted	<u>(20,309)</u>
Total net position	<u>112,800</u>
Total liabilities and net position	<u><u>\$ 233,841</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION -
PROPRIETARY FUND - FOOD SERVICE**

Year Ended June 30, 2017

Operating Revenues	
Food service revenue	\$ 353,394
Operating Expenses	
Purchased professional and technical service	465,699
Purchased property service	33,296
Other purchased service	13,472
Food and milk	282,376
Supplies	39,465
Donated commodities used	59,781
Equipment - replacement	15,482
Depreciation	5,847
Dues and fees	2,515
Other operating expenditures	4,349
Total operating expenses	922,282
Operating loss	(568,888)
Nonoperating Revenues	
Federal subsidies	516,140
State subsidies	29,147
Value of donated commodities	59,781
Total nonoperating revenues	605,068
Change in net position	36,180
Net Position - July 1, 2016	76,620
Net Position - June 30, 2017	\$ 112,800

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - FOOD SERVICE Year Ended June 30, 2017

Cash Flows From Operating Activities	
Cash received from meal sales	\$ 353,262
Cash payments to suppliers for goods and services	(941,432)
Net cash used in operating activities	(588,170)
Cash Flows From Noncapital Financing Activities	
Federal subsidies	521,254
State subsidies	29,438
Net cash provided by noncapital financing activities	550,692
Cash Flows From Capital and Related Financing Activities	
Acquisition of machinery and equipment	(80,099)
Proceeds from extended term financing	47,943
Principal paid on financing agreements	(11,943)
Cash used in capital and related financing activities	(44,099)
Net decrease in cash	(81,577)
Cash:	
July 1, 2016	164,674
June 30, 2017	<u>\$ 83,097</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (568,888)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,847
Value of donated commodities	59,781
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	1,990
Inventories	779
(Decrease) increase in:	
Due to other funds	133
Accounts payable	(80,318)
Unearned revenue	(7,494)
Net cash used in operating activities	\$ (588,170)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017

	Student Activity Funds
ASSETS	
Cash and cash equivalents	\$ 130,003
Investments	11,290
Total assets	\$ 141,293
 LIABILITIES	
Due to student groups	\$ 141,293

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Upper Adams School District (District) operates three elementary schools and one secondary school in Adams County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally-elected, nine-member, Board-form of government.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard-setting body for the establishment of governmental accounting and financial-reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

The District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Upper Adams School District is the lowest level of government which has oversight responsibility and control over all activities related to public-school education in the Commonwealth of Pennsylvania. The District receives funding from local, state, and Federal-government sources and must comply with the requirements of these funding-source entities. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities, and consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided in the report for all of the governmental, proprietary, and fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major, individual governmental funds and the major, individual enterprise fund are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB)

The government-wide financial statements are reported using the economic resources-measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary-fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as an expense against current operations, and accumulated depreciation is reported on the Statement of Net Position.

Governmental-fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state, and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the District's policy to use resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisitions, uses, and balances of the District's expendable, financial resources and related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from local property, earned income, and per capita taxes; and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon the determination of net income and capital maintenance. The District operates one proprietary fund, the Food Service Fund. This fund is used for all financial transactions related to food-service operations. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal, operating revenue of the District's proprietary fund is food-service charges. Operating expenses for the District's proprietary fund include food-production costs, supplies, administrative costs, and depreciation of capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fiduciary funds are used to account for assets held by the District in a trustee or agent capacity. There are two major types of fiduciary funds: trust funds established by a formal trust agreement that places restrictions on the use of the fund's assets; and agency funds that account for the resources of another entity for which the District has custodial responsibility. Agency funds account for school activities such as various clubs and class funds. Student activity funds are addressed in Section 511 of the Public School Code. Agency Funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are accounted for using the modified-accrual basis of accounting. The District reports on various student activity funds.

D. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each fiscal year for the General Fund on the modified-accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to the adoption of the District's budget and reporting of its financial statements, specifically:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which the District is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed, operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal, budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved, budget amendments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

Allowance for Estimated Uncollectible Taxes: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. The portion of taxes receivable which is expected to be received within sixty days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2017. The inventory consisted of government-donated commodities which were valued at their estimated, fair market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method. The District has adopted an inventory-recordkeeping system which distinguishes between donated and purchased commodities. Accordingly, unearned revenue for donated commodities has been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund-financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the District as assets with initial, individual costs of more than \$5,000 and estimated useful lives in excess of two years, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Donated capital assets are recorded at their estimated fair market values at the dates of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phases of capital assets of business-type activities is included as part of the capitalized values of the assets constructed. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs, and the extent to which the assets are parts of larger capital projects. The costs of normal maintenance and repairs that do not add to the values of assets or materially extend assets' lives are not capitalized.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Capital Assets and Depreciation (Continued)

Depreciation of capital assets is provided on the straight-line method over the estimated useful lives of the assets or groups of assets, as determined by management.

Government Wide Statements: In the government-wide financial statements, depreciation of all exhaustible capital assets is recorded as a direct expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Fund Financial Statements: In the fund-financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the applicable governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as capital assets which are presented in the government-wide statements.

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to its pension plan, the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2016, and changes in proportions as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Long-Term Obligations: In the government-wide financial statements and in the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance is deferred as a prepaid expense and amortized over the lives of the related bonds. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental-fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued and related premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits such as unpaid vacation, and sick and personal leave. The calculation of this amount is determined by the appropriate vacation, sick, personal, and retirement lump-sum payments which would be available to employees if they were to leave or retire from the District, adjusted for expected turnover-rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. In the governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees. Those costs determined to be current-year costs are reflected as a liability of the General Fund.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employees' Retirement System, a governmental, cost-sharing, multiple-employer, defined-benefit pension plan. The District provides access to health, vision, dental, and prescription-drug coverage to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms investments are reported at fair value.

Interfund Activity: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts.

On fund financial statements, short-term interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Pensions: The District recognizes their share of the difference between projected earnings and actual investments of their pension plan and the changes in proportions in the pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Deferred Inflows of Resources - Delinquent Property Taxes: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Balance: The District's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to express intent to the District's Business Administrator.

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned, General Fund balance of not less than one percent and not more than eight percent of the budgeted expenditures for that fiscal year.

F. Other

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other (Continued)

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 10, 2018, the date the financial statements were available to be issued.

Note 2. Deposits and Investments

Section 440.1 of the Public School Code of 1949 as amended and supplemented by Act 10 of 2016 define allowable investments for school districts, which are summarized as follows:

- United States Treasury Bills
- Short-term obligations of the U.S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full-faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full-faith and credit of the political subdivision
- Shares of an investment companies registered under the Investment Company Act of 1940
- Local Government Investment Pools
- Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored enterprise
- Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. A summary of the District's deposits at June 30, 2017, are as follows:

	Carrying Amount	Bank Balance	Financial Institution
FDIC Insured	\$ 250,000	\$ 250,000	PNC Bank
FDIC Insured	47,251	47,846	Adams County National Bank
Uninsured and uncollateralized by assets maintained in conformity with Act 72	983,063	1,264,598	PNC Bank
	<u>\$ 1,280,314</u>	<u>\$ 1,562,444</u>	

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts, and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis, and authorizing the appointment of custodians to act as the pledgers of the assets.

Investments

As of June 30, 2017, the District had the following investments:

Investment	Credit Rating	Weighted-Average Maturity	Carrying Value
Pennsylvania School District Liquid Asset Fund - Max Series (PSDLAF-Max Series)	AAAm	41 days	\$ 1,273,596
Full Flex Investment Pool (PSDLAF-Flex)	n/a	137 days	2,800,000
			<u>\$ 4,073,596</u>

Portfolio Assets

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDLAF-Max Series, at amortized cost.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments (Continued)

PSDLAF-Max Series - This fund invests in securities such as U.S. treasury obligations; securities issued by the U.S. government, its agencies and instrumentalities; and repurchase agreements collateralized by such securities and contracted with highly-rated counterparties. The pool will hold at least 50% of its assets in securities rated 'A-1+' by Standards & Poor's, with the remainder held in securities rated 'A-1'. The fund generally maintains a weighted average maturity to reset of 60 days or less. PSDLAF-Max Series does not have limitations or restrictions on withdrawals.

PSDLAF Full Flex Pool, as part of the fixed term series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as U.S. Treasury or Agency securities in which monies in which a Fixed Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the Investment Adviser and the third party custodian. At present, US Bank National Association, Minneapolis, Minnesota serves as the third party custodian with respect to all such securities. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in years or months, weighted to reflect the dollar-size of individual investments within an investment type. WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Interest-Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair-value losses arising from increasing interest rates.

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in Pennsylvania School District Liquid Asset Fund represent 100% of the District's total investments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Deferred Inflows of Resources and Unearned Revenue

A summary of the taxes receivable and related accounts at June 30, 2017, are as follows:

	Amount
Taxes receivable	\$ 1,123,159
Allowance for uncollectible taxes	(36,180)
Taxes Receivable - Net	<u>\$ 1,086,979</u>
Taxes to be collected within 60 days	\$ 560,318
Deferred inflows of resources - delinquent property taxes	526,661
Taxes Receivable - Net	<u>\$ 1,086,979</u>
Deferred Inflows of Resources - General Fund	
Delinquent property taxes	<u>\$ 526,661</u>
Unearned Revenue - Food Service Fund	
Student deposits	\$ 13,653
Donated commodities	26,828
	<u>\$ 40,481</u>

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the elected, municipal tax collector bills and collects property taxes on behalf of the District. Property taxes are levied on July 1. Taxes are collected at a 2.00% discount until August 31, at their face amount from September 1 until October 31, and include a 10.00% penalty thereafter. Adams County Tax Claim Bureau collects delinquent real estate taxes for the District.

The District's tax rate for all purposes for the year ended June 30, 2017, was 13.666 mills (\$13.666 per \$1,000 assessed valuation) as levied by the Board of School Directors. Refunds on payments of prior-year taxes are classified as other debt-service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District were approximately 96.90% of the total tax levy.

The District has not entered into any tax abatement agreements as of June 30, 2017.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2017, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 19,024	\$ -
Proprietary Fund - Food Service	-	19,024
	<u>\$ 19,024</u>	<u>\$ 19,024</u>

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

There were no operating transfers between funds during the fiscal year ended June 30, 2017.

Transfers and payments within the District are substantially for purposes of subsidizing operations, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Note 6. Food Service Fund Inventories

The composition of Food Service Fund inventories at June 30, 2017, is as follows:

	Amount
Materials and supplies	\$ 1,748
Purchased food	2,798
Donated food	12,939
	<u>\$ 17,485</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	July 1, 2016	Increases	Decreases	June 30, 2017
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 370,297	\$ -	\$ -	\$ 370,297
Capital assets, being depreciated				
Site improvements	2,137,674	37,738	-	2,175,412
Buildings and improvements	36,858,886	807,498	-	37,666,384
Furniture and equipment	7,254,871	1,150,678	1,171,160	7,234,389
Total capital assets, being depreciated	46,251,431	1,995,914	1,171,160	47,076,185
Less accumulated depreciation				
Site improvements	1,511,971	83,890	-	1,595,861
Buildings and improvements	19,914,873	940,160	-	20,855,033
Furniture and equipment	5,953,621	524,714	1,010,006	5,468,329
Total accumulated depreciation	27,380,465	1,548,764	1,010,006	27,919,223
Total capital assets, being depreciated, net	18,870,966	447,150	161,154	19,156,962
Governmental Activities, Capital Assets - Net	\$ 19,241,263	\$ 447,150	\$ 161,154	\$ 19,527,259
Business-Type Activity				
Machinery and equipment	\$ 658,687	\$ 80,099	\$ -	\$ 738,786
Accumulated depreciation	(599,830)	(5,847)	-	(605,677)
Business-Type Activity, Capital Assets - Net	\$ 58,857	\$ 74,252	\$ -	\$ 133,109

Depreciation expense was charged to the functions/programs of the District as follows:

	Amount
Governmental Activities	
Instructional	\$ 1,067,654
Instructional student support	189,476
Administration and financial support	214,125
Operation and maintenance of plant services	391
Pupil transportation	5,242
Student activities	71,876
Total governmental activities	1,548,764
Business-Type Activity	
Food service	5,847
Total School District	\$ 1,554,611

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits at June 30, 2017, consist of the following:

	Amount
Accrued salaries	\$ 1,156,329
Retirement	1,952,541
Social security	85,179
Workers' compensation	576
	<u>\$ 3,194,625</u>

Accrued salaries represent teachers' salaries earned during the 2016-2017 school year which will be paid subsequent to June 30, 2017. Accrued retirement represents the Public School Employees' Retirement Board contribution for the first and second quarters of calendar year 2017, including the portion pertaining to accrued salaries at June 30, 2017. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2017.

Note 9. Long-Term Obligations

During the fiscal year ended June 30, 2017, long-term obligations changed as follows:

	Balances July 1, 2016	Increases	Decreases	Balances June 30, 2017	Due Within One Year
Governmental Activities					
General Obligation Bonds - Series A of 2010	\$ 1,997,727	\$ -	\$ 8,523	\$ 1,989,204	\$ 5,000
General Obligation Notes - Series of 2011	1,885,000	-	175,000	1,710,000	175,000
General Obligation Notes - Series of 2012	6,380,000	-	1,235,000	5,145,000	1,250,000
General Obligation Notes - Series of 2015	5,565,000	-	5,000	5,560,000	860,000
	<u>15,827,727</u>	<u>-</u>	<u>1,423,523</u>	<u>14,404,204</u>	<u>2,290,000</u>
Bond issuance premium (discount) - net	42,405	-	8,046	34,359	-
	<u>15,870,132</u>	<u>-</u>	<u>1,431,569</u>	<u>14,438,563</u>	<u>2,290,000</u>
Capital lease obligations	1,080,373	1,104,597	549,466	1,635,504	440,233
Compensated absences	454,894	-	31,879	423,015	-
Other post-employment benefits obligation	548,407	61,991	-	610,398	-
Net pension liability	36,385,000	2,418,160	-	38,803,160	-
	<u>\$ 54,338,806</u>	<u>\$ 3,584,748</u>	<u>\$ 2,012,914</u>	<u>\$ 55,910,640</u>	<u>\$ 2,730,233</u>
Business-Type Activities					
Contracts payable	\$ -	\$ 47,943	\$ 11,943	\$ 36,000	\$ 12,000

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

General Obligation Bonds - Series A of 2010 - On August 11, 2010, the District obtained secured financing from Orrstown Bank in the principal amount of \$2,033,500. The proceeds are to be used for improvements to the middle school and central office, acquisition of the District-wide security and communication systems, and to pay the costs of issuing the bonds. Principal payments, commencing on February 1, 2011, are due annually, and interest is payable semi-annually at an annual rate of 4.00%. Minimum principal installments range from \$5,000 to \$615,000 through February 1, 2022. Principal may be advanced by the bank to the District, from time to time, through February 1, 2012.

General Obligation Notes - Series of 2011 - On December 21, 2011, the District issued General Obligation Notes in the principal amount of \$2,640,000. The proceeds were used to provide payment and restructuring of the February 15, 2012 principal payment and interest due on the outstanding General Obligation Bonds - Series of 2010, currently refund the outstanding General Obligation Bonds - Series of 2007, and to pay the costs of issuing the notes. The economic gain on the refunding of the 2007 bonds was \$64,265. The notes bear annual interest rates ranging from 0.40% to 2.875%. Interest is payable semi-annually, on February 1 and August 1, and the notes mature serially in amounts ranging from \$85,000 to \$860,000 through February 1, 2022.

General Obligation Notes - Series of 2012 - On August 21, 2012, the District issued General Obligation Notes in the principal amount of \$7,575,000. The proceeds were used to restructure the outstanding General Obligation Bonds-Series of 2008 and to pay the costs of issuing the bonds. The economic gain on the refunding of the 2008 bonds was \$199,968. The notes bear annual interest rates ranging from 0.80% to 2.30%. Interest is payable semi-annually, on May 1 and November 1, and the notes mature serially in amounts ranging from \$5,000 to \$1,580,000 through May 1, 2022.

General Obligation Notes - Series of 2015 - On February 13, 2015, the District issued General Obligation Notes in the principal amount of \$5,570,000. The proceeds were used to restructure the outstanding General Obligation Bonds-Series of 2010, provide financing for various capital projects, and to pay the costs of issuing and insuring the notes. The notes bear annual interest rates ranging from 0.50% to 4.00%. Interest is payable semi-annually, on February 15 and August 15, and the notes mature serially in amounts ranging from \$5,000 to \$1,625,000 through February 15, 2024.

Contracts Payable - On July 1, 2015, the District obtained financing from Compass Group USA, Inc., by and through its Chartwells Division, in an amount not to exceed \$60,000 to be used to fund certain improvements to the District's food service operations. The obligation requires 57 monthly payments through June 2020.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

The District is in compliance with all debt covenants of the outstanding bond issues. Those covenants include the following: the District shall include the annual debt service in its budget for the fiscal year, shall appropriate said debt service from its general revenues, and shall punctually cause the payment of the principal and interest of each of the obligations.

Maturities of long-term debt issues and notes are as follows:

Year Ending June 30,	Governmental Activities			Business
	Principal	Interest	Total	Type Activity
2018	\$ 2,290,000	\$ 353,929	\$ 2,643,929	\$ 12,000
2019	2,300,000	318,579	2,618,579	12,000
2020	2,295,000	243,196	2,538,196	12,000
2021	2,400,000	180,996	2,580,996	-
2022	2,494,204	117,410	2,611,614	-
2023-2024	2,625,000	78,125	2,703,125	-
	<u>\$ 14,404,204</u>	<u>\$ 1,292,235</u>	<u>\$ 15,696,439</u>	<u>\$ 36,000</u>

Compensated Absences - Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts and varies by employee classification. In addition, employees are granted sick and personal days per school year, and any unused days can be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick and personal days in amounts equal to the number of unused days multiplied by amounts established by employment contracts. Certain employees are also offered options regarding retirement incentives as prescribed in the contracts if certain conditions are met. The total liability for accrued vacation, sick and personal leave, and retirement incentives has been reflected in the Statement of Net Position.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Capital Lease Obligations

The District has entered into lease agreements as lessee for financing the acquisition of energy-performance and computer equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, they have been recorded as such.

The assets acquired through the capital leases are as follows:

	Amount
Buildings and improvements	\$ 1,379,095
Furniture and equipment	2,561,120
Less accumulated depreciation	(2,018,795)
	<u>\$ 1,921,420</u>

The present value of future minimum lease payments as of June 30, 2017, is as follows:

Years Ending June 30,	Amount
2018	\$ 476,420
2019	408,588
2020	412,884
2021	153,676
2022	158,221
2023	135,082
Total minimum lease payments	<u>1,744,871</u>
Less: amount representing interest	(109,367)
Present value of minimum lease payments	<u>\$ 1,635,504</u>

Note 11. Fund Balance Designations

The District has designated certain portions of the General Fund balance as follows:

Description of assigned	Amount
General Fund	
Future debt service	\$ 672,695
PSERS	246,000
Capital Reserve	562,619
	<u>\$ 1,481,314</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan

Plan Description

PSERS (System) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Contributions

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$3,091,519 for the year ended June 30, 2017. For the year ended June 30, 2017, the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$1,860,223.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$38,803,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.0783%, which was an decrease of 0.0057% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$3,472,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in the governmental and business-type activities:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 323,000
Changes in assumptions	1,401,000	-
Changes in proportions	376,000	2,522,000
Net difference between projected and actual investment earnings	2,163,000	-
Difference between employer contributions and proportionate share of total contributions	118,000	-
Contributions subsequent to the measurement date	3,048,000	-
	<u>\$ 7,106,000</u>	<u>\$ 2,845,000</u>

\$3,048,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Total
2018	\$ 161,000
2019	161,000
2020	552,000
2021	336,000
2022	3,000
	<u>\$ 1,213,000</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Changes In Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurements:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
	<u>100.0%</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 47,467,000	\$ 38,803,000	\$ 31,523,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

Plan Payables

At June 30, 2017, the District has payables to the PSERS pension plan of \$1,952,541 which is comprised of staff payroll accruals and the quarterly PSERS liability for second quarter 2017 retirement contributions.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions

Plan Description: Upper Adams School District administers a single-employer, defined-benefit healthcare plan. The plan provides medical, prescription-drug, dental, and vision benefits to eligible retirees and their spouses through the District's group health-insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the various unions representing District employees; said provisions are renegotiated each bargaining period. All employees are eligible upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service regardless of age). Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group-health plan until the retired employees reach Medicare age. The plan does not issue a publicly-available financial report.

Funding Policy: Contribution requirements are negotiated between the District and the various unions. Retired employees are responsible for payments equal to the premium determined by the District's plan. The District funds the plan on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Annual OPEB Cost and Net OPEB Obligation - The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and to amortize any unfunded, actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

	Amount
Annual required contribution (ARC)	\$ 138,427
Interest on net OPEB obligation	24,678
Adjustment to annual required contribution	(33,668)
Annual OPEB cost (expense)	129,437
Contributions made (estimated)	(67,446)
Estimated increase in net OPEB obligation	61,991
Net OPEB obligation - beginning of year	548,407
Estimated net OPEB obligation - end of year	\$ 610,398

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2017, 2016 and 2015, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 144,101	103.96%	\$ 543,258
6/30/2016	\$ 144,196	96.43%	\$ 548,407
6/30/2017	\$ 129,437	52.11%	\$ 610,398

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions (Continued)

Funded Status and Funding Progress - As of July 1, 2016, the most recent actuarial-valuation date, the actuarial-accrued liability for benefits was \$1,101,290, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$10,309,312, and the ratio of the unfunded, actuarial-accrued liability to the covered payroll was 10.68%.

Actuarial valuations of an on-going plan involve estimates of the values of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare-cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations, and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year, trend information that shows whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial-accrued liability for benefits.

Actuarial Method and Assumptions - Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial-accrued liabilities and the actuarial values of assets, consistent with the long-term perspectives of the calculations.

In the July 1, 2016, actuarial valuation, a 4.50% interest rate assumption was used; as well as an assumption for salary increases used only for spreading contributions over future pay comprised of a 2.50% cost of living adjustment, 1.00% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0.25%. The actuarial assumptions include an annual health-care, cost trend rate of 6.50% in 2016, 6.0% in 2017 and 5.50% in 2018-2020 with rates gradually decreasing from 5.40% in 2021 to 3.8% in 2075 and later years. The actuarial value of assets is equal to the market value of assets. The entry-age normal actuarial cost method was used. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Joint Ventures

Cumberland/Perry Area Vocational-Technical School (CPAVTS):

CPAVTS provides vocational technical training and education to participating students of the member districts. The District is one of thirteen member school districts participating in the operation of CPAVTS. CPAVTS is operated, administered and managed by a joint-operating committee consisting of board members from the member school districts. Member districts are responsible for funding the major portion of CPAVTS' operating budget. The District's share of annual operating costs for CPAVTS is based on the number of students attending the school from the District, and is reflected as instructional expenditures of the District's General Fund. For the year ended June 30, 2017, the District paid \$155,067 for its estimated share of the operating budget. Complete financial information for CPAVTS can be obtained from the Administrative Office at 110 Old Willow Mill Road, Mechanicsburg, PA 17050.

Lincoln Intermediate Unit (LIU):

The LIU Board of Directors consists of 13 members from the 25 member school districts in Adams, Franklin, and York counties. The LIU Board members are school-district board members, who are elected by the public, and are appointed to the LIU Board by the member districts' Boards of School Directors. Currently, Upper Adams School District is not responsible for appointing one of these members. The LIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Upper Adams School District contracts with LIU for special education services for District students, instructional services, and certain internal-service functions. The direct and indirect amounts paid for these services during the year ended June 30, 2017, approximated \$679,269. Complete financial information for LIU can be obtained from the Administrative Office at 65 Billerbeck Street, New Oxford, PA 17350.

Note 15. Lincoln Benefit Trust

In July 2016, the District joined the Lincoln Benefit Trust, a public-entity risk pool currently operating as a claim-servicing pool for member school districts and the intermediate unit. In joining the Lincoln Benefit Trust, the District agreed that membership was a means to address medical and health services for all employees with the understanding the District is exposed to risk of loss related to employee health care for claims incurred up to \$125,000. Moreover, claims incurred for \$125,001-\$300,000 are paid from a stop-loss pool fund on a shared-risk basis. Claims incurred for \$300,001-\$500,000 are paid from a stop-loss insurance policy purchased by the Trust. Stop-loss insurance is purchased through an insurance carrier for \$500,000 and above per individual. The District pays all of the premiums from the General Fund. At June 30, 2017, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$988,074 with Lincoln Benefit Trust, which is recorded in the General Fund as an asset. The District has recorded a non-spendable fund balance for this amount.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15. Lincoln Benefit Trust (Continued)

The following is a summary of the financial information of the Lincoln Benefit Trust as of June 30, 2017:

	Amount
Net assets available for benefits	\$ 95,706,536
Accumulated plan benefits	\$ 8,033,800

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2017. It is reasonably possible that actual benefit claims for all participating members will differ from the estimated amount and the difference may be material to the District's financial position taken as a whole.

Note 16. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or three prior years. During the year ended June 30, 2017, the District did not incur any significant losses that were not covered by insurance.

The District elects to be self-insured for unemployment. The District is paying unemployment claims from the General Fund.

Note 17. Contingencies

Grant Program Involvement - In the normal course of operations, the District participates in various Federal or state grant/loan programs. The grant/loan programs are often subject to additional audits by agents of the granting or lending agencies, the purpose of which is to ensure compliance with the specific conditions of the grants or loans. Any liabilities for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although management believes the amount, if any, would not be material.

Note 18. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS PLAN

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2017

Actuarial- Valuation Date	Actuarial Value of Assets (a)	Actuarial- Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2012	\$ -	\$ 2,050,510	\$ 2,050,510	0.00%	\$ 10,153,262	20.20%
1/1/2014	\$ -	\$ 1,306,202	\$ 1,306,202	0.00%	\$ 10,834,396	12.06%
7/1/2016	\$ -	\$ 1,101,290	\$ 1,101,290	0.00%	\$ 10,309,312	10.68%

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service; terminated employees who have accumulated benefits, but are not yet receiving them; and retired employees and beneficiaries currently receiving benefits) of 200 or more employees, or at least triennially for plans with a total membership of fewer than 200 employees.

Trend information is presented only for years in which information is available.

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Year Ended June 30, 2017**

	2017	2016	2015
District's proportion of the net pension liability	0.0783%	0.0840%	0.0861%
District's proportionate share of the net pension liability	<u>\$ 38,803,000</u>	<u>\$ 36,385,000</u>	<u>\$ 34,079,000</u>
District's covered-employee payroll	<u>\$ 10,135,695</u>	<u>\$ 10,810,045</u>	<u>\$ 10,981,061</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.84%	336.59%	310.34%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2017**

	2017	2016	2015
Contractually required contribution	\$ 3,047,731	\$ 2,579,839	\$ 2,169,789
Contributions in relation to the contractually required contribution	<u>(3,047,731)</u>	<u>(2,579,839)</u>	<u>(2,169,789)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 10,430,699</u>	<u>\$ 10,131,928</u>	<u>\$ 10,809,787</u>
Contributions as a percentage of covered-employee payroll	29.22%	25.46%	20.07%

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Upper Adams School District's basic financial statements, and have issued our report thereon dated January 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Upper Adams School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Adams School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as Finding 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Adams School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Upper Adams School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Upper Adams School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Boyer & Ritter". The signature is written in a cursive, flowing style with a large loop at the end of the word "Ritter".

Chambersburg, Pennsylvania
January 10, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Upper Adams School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2017. Upper Adams School District's major Federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Upper Adams School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Upper Adams School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Upper Adams School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Upper Adams School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Upper Adams School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Upper Adams School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Boyer & Ritten". The signature is written in dark ink and is positioned centrally below the main body of text.

Chambersburg, Pennsylvania
January 10, 2018

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? X Yes No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? Yes X None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.555	National School Lunch Program
10.553	School Breakfast Program
10.555	National School Lunch Program – Food Donation

Dollar threshold used to distinguish between type A and type B programs

 \$750,000

Auditee qualified as low-risk auditee?

 X Yes No

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II -- Financial-Statement Findings

A. Significant Deficiencies in Internal Control

Finding 2017-001

Criteria: Bank balances should be reconciled to the general ledger to provide assurance that all transactions have been entered by the bank and recorded in the books properly. The reconciled balance should be in agreement with the general ledger balance.

Condition and context: During our audit, we noted several months of bank statements, applicable to all funds, were not reconciled to the general ledger.

Cause: The District's Business Office had a lack of supervision over the reconciliation process which contributed to the deficiency.

Effect: The District's staff and Board of Directors cannot reasonably rely on financial records without the performance of bank reconciliations.

Recommendations: We recommend the bank accounts be reconciled monthly to the general ledger and that any differences be promptly investigated and adjusted with adequate explanations. Ideally, all bank accounts should be reconciled no later than the 20th day of the following month or within a week of receipt of the bank statements. Additionally, we recommend the bank reconciliations be included in the monthly finance report to the Board.

Views of responsible officials and planned corrective actions: The District acknowledges the finding. The District has reconciled all bank accounts to the current reporting periods. The District has identified a consistent approach to reconciliations and will continue to perform monthly bank reconciliations on a timely basis.

B. Compliance Findings

There were no findings relating to the financial statement audit required to be reported.

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

A. Significant Deficiencies in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

B. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2016	Federal Revenues Recognized	Federal Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2017	Amount Passed Through to Subrecipients
U. S. Department of Education										
Passed through the PA Department of Education										
Title I - Grants to Local Educational Agencies	84.010	013-160447	2015-2016	\$ 185,317	\$ 15,339	\$ 15,339	\$ -	\$ -	\$ -	\$ -
Title I - Grants to Local Educational Agencies	84.010	013-170447	2016-2017	\$ 199,508	187,975	-	199,508	199,508	11,533	-
					203,314	15,339	199,508	199,508	11,533	-
Title II - Supporting Effective Instruction	84.367	020-160447	2015-2016	\$ 58,977	9,798	9,798	-	-	-	-
Title II - Supporting Effective Instruction	84.367	020-170447	2016-2017	\$ 58,050	50,447	-	58,050	58,050	7,603	-
					60,245	9,798	58,050	58,050	7,603	-
Title III - English Language Acquisition	84.365	010-150447	2014-2015	\$ 32,221	5,370	5,370	-	-	-	-
Title III - English Language Acquisition	84.365	010-160447	2015-2016	\$ 45,576	3,798	3,798	-	-	-	-
Title III - English Language Acquisition	84.365	010-170447	2016-2017	\$ 43,932	35,146	-	43,932	43,932	8,786	-
					44,314	9,168	43,932	43,932	8,786	-
Total passed through the PA Department of Education					307,873	34,305	301,490	301,490	27,922	-
Passed through Lincoln Intermediate Unit #12										
Race to the Top - Phase 3	84.413A	N/A	2012-2016	\$ 13,873	334	334	-	-	-	-
Special Education Cluster										
Special Education Grants to States	84.027	N/A	2016-2017	\$ 278,444	278,444	-	278,444	278,444	-	-
Special Education Preschool Grants	84.173	N/A	2016-2017	\$ 5,106	5,106	-	5,106	5,106	-	-
Total Special Education Cluster					283,550	-	283,550	283,550	-	-
Total passed through Lincoln Intermediate Unit #12					283,884	334	283,550	283,550	-	-
Total U. S. Department of Education					591,757	34,639	585,040	585,040	27,922	-

(Continued)

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2016	Federal Revenues Recognized	Federal Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2017	Amount Passed Through to Subrecipients
U. S. Department of Homeland Security										
Passed through the PA Emergency Management Agency										
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	2015-2016	\$ 11,002	11,002	11,002	-	-	-	-
Total U. S. Department of Homeland Security					11,002	11,002	-	-	-	-
U. S. Department of Agriculture										
Passed through PA Department of Education										
National School Lunch Program *	10.555	N/A	2015-2016	N/A	4,364	4,364	-	-	-	-
National School Lunch Program *	10.555	N/A	2016-2017	N/A	431,921	-	431,921	431,921	-	-
					436,285	4,364	431,921	431,921	-	-
School Breakfast Program *	10.553	N/A	2015-2016	N/A	751	751	-	-	-	-
School Breakfast Program *	10.553	N/A	2016-2017	N/A	84,219	-	84,219	84,219	-	-
					84,970	751	84,219	84,219	-	-
Total passed through the PA Department of Education					521,255	5,115	516,140	516,140	-	-
Passed through the PA Department of Agriculture										
National School Lunch Program -Food Donation *	10.555	N/A	2015-2016	N/A	59,202	(13,519)	59,781	59,781	(12,940)	-
Total U. S. Department of Agriculture					580,457	(8,404)	575,921	575,921	(12,940)	-
Total Expenditures of Federal Awards					\$ 1,183,216	\$ 37,237	\$ 1,160,961	\$ 1,160,961	\$ 14,982	\$ -
* Programs in the Child Nutrition Cluster										
National School Lunch Program	\$ 431,921									
School Breakfast Program	84,219									
National School Lunch Program - Food Donation	59,781									
	<u>\$ 575,921</u>									

See Notes to Schedule of Expenditures of Federal Awards.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of Upper Adams School District under programs of the Federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Upper Adams School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Upper Adams School District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity numbers are presented where available.

Note 3. Indirect Cost Rate

The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

Year Ended June 30, 2017

A. Significant Deficiency in Internal Control

Finding 2016-001 – Bank Reconciliations not Timely Prepared

Criteria: Reconciliations of bank balances to the general ledger should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the books properly.

Condition and context: During our audit, we noted several months of bank statements, applicable to all funds, were not reconciled to the general ledger.

Cause: The District's Business Office transitioned to new software during the year which impaired their ability to process, record, and reconcile transactions on a timely basis. Also, a lack of supervision over the reconciliation process contributed to the deficiency.

Effect: The District's staff and Board of Directors cannot reasonably rely on financial records without the performance of bank reconciliations.

Recommendations: We recommend the bank accounts be reconciled monthly to the general ledger and that any differences be promptly investigated and adjusted with adequate explanations. Ideally, all bank accounts should be reconciled no later than the 20th day of the following month or within a week of receipt of the bank statements. Additionally, we recommend the bank reconciliations be included in the monthly finance report to the Board.

Views of responsible officials and planned corrective actions: The District acknowledges the finding. The District has reconciled all bank accounts to the current reporting periods. The District has identified a consistent approach to reconciliations and will continue to perform monthly bank reconciliations on a timely basis.

Current Status – The finding has not been remedied in the current year; however management is in the process of correcting this in the current fiscal year.

Finding 2016-002 – Material Adjustments

Criteria: The financial records submitted for audit, and the related audit support should not require material adjustments in order to support financial statements prepared in accordance with GAAP.

Condition and context: The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has assumed responsibility for evaluating the adequacy and results of the financial statements. However, the District's staff was not able to prepare the financial records and related support to a level which did not require material adjustments.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

Year Ended June 30, 2017

Finding 2016-002 – Material Adjustments (Continued)

Cause: The District's Business Office transitioned to new software during the year which impaired their capability to process, record, and reconcile all transactions on a timely basis. This impacted their ability to prepare the final financial records for audit.

Effect: The financial records required material adjustment in order for them to support financial statements prepared in accordance with GAAP.

Recommendations: The District's staff should adhere to strict monthly and annual closing schedules with defined roles and responsibilities. The balance sheet and income statement accounts should be monitored on a monthly basis.

Views of responsible officials and planned corrective actions: The District recognizes the finding. Through the audit process, the District has consulted with its auditors to establish a process whereby adequate documentation and closing schedules will be followed. Currently the Business Office is in the beginning stages of developing and implementing month-end and year-end closing procedures.

Current Status – The finding has been remedied in the current year.

Finding 2016-003 – Separate Funding Source for Federal Grants

Criteria: Financial management standards and procedures require the District to identify, in its accounts, all federal awards received and expended, and the federal programs under which they were received.

Condition and context: During our audit, we noted that general ledger funding sources are not consistently used to track federal funded expenditures.

Cause: The software has not been set up to use the funding source dimension as provided by PA Department of Education.

Effect: The District's staff and Board of Directors cannot reasonably rely on financial records to prepared grant reports without the use of funding sources in the chart of accounts.

Recommendations: We recommend the District begin using separate funding sources for each grant program to facilitate the reporting requirements for grants and contracts.

Views of responsible officials and planned corrective actions: The District acknowledges the finding. The Business Office is in the beginning stages of adapting the chart of accounts.

Current Status – The finding has been remedied in the current year.



Wesley T. Doll, Ed.D.
Superintendent of Schools

Joseph L. Albin
Director of Curriculum, Instruction, & Assessment

Belinda M. Wallen, PRSBA
Business Administrator

Anne K. Corwell, Ed.D.
Director of Student Services

James D. Van Dyke,
Director of Technology & Transportation

Upper Adams School District

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CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2017

Upper Adams School District respectfully submits the following corrective action plan for the year ended, June 30, 2017.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

A. Significant Deficiencies in Internal Control

Finding 2017-001

Recommendation: Bank balances should be reconciled to the general ledger to provide assurance that all transactions have been entered by the bank and recorded in the books properly. The reconciled balance should be in agreement with the general ledger balance. During our audit, we noted several months of bank statements, applicable to all funds, were not reconciled to the general ledger. We recommend the bank accounts be reconciled monthly to the general ledger and that any differences be promptly investigated and adjusted with adequate explanations. Ideally, all bank accounts should be reconciled no later than the 20th day of the following month or within a week of receipt of the bank statements. Additionally, we recommend the bank reconciliations be included in the monthly finance report to the Board.

Corrective Action: The District acknowledges the finding. The District has reconciled all bank accounts to the current reporting periods. The District has identified a consistent approach to reconciliations and will continue to perform monthly bank reconciliations on a timely basis.

Person Responsible: Belinda M. Wallen, Business Administrator

Completion Date: June 30, 2018